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ARMS SALE LOANS FOUGHT IN SENATE

Changes Proposed for Bank Bill to Curb Powers of Export-Import Agency

Excerpts from report and Senators' views, Page 17.

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WASHINGTON, Aug. 8 — The bill to extend the life and lending authority of the Export-Import Bank was called up in the Senate today and immediately ran into a cross fire of amendments that, if sustained, could restrict the Administration's freedom of action in foreign policy in two important areas.

On the Democratic side of the aisle, Senator Allen J. Ellender of Louisiana offered an amendment that would prohibit the bank from making any loans to any underdeveloped countries for the purchase of arms.

On the Republican side of the aisle the minority leader, Everett McKinley Dirksen of Illinois offered an amendment that would prohibit the bank from making loans for the purchase of any United States products by a Communist country, or by any other country if the products were destined to end up in a Communist nation.

Fiat Deal Endangered

The immediate aim of the Dirksen amendment is to stop the bank's projected loan of $50-million to the Fiat Auto Company of Italy for the purchase of machine tools to be installed in a plant that Fiat is to build in the Soviet Union.

A similar amendment, which was offered by Representative Paul A. Fino, Bronx Republican, was defeated by three votes in the House Banking and Currency Committee.

Because of the close committee vote and fear that the amendment might pass when offered from the House floor, Administration leaders have delayed bringing the Export-Import Bank bill to the House floor until after the Senate had acted on the bill.

If the Senate should accept the Dirksen amendment, the

Continued From Page 1, Col. 4

prospects for House adoption would be greatly increased.

The Dirksen amendment, which has 15 co-sponsors, was not debated today. For two hours the Senate concentrated on the Ellender amendment, and the debate was always intense and at times acerbic.

Special Loan

Under authority inserted by amendments in the Foreign Assistance Act of 1964, the Defense Department has, since late 1965, made loans totaling $604-million to 14 underdeveloped countries for the purchase of arms.

This has been done through a line of credit extended to the Pentagon by the Export-Import Bank. Because these countries are not credit worthy, the bank has insisted on guarantees.

For each loan the Pentagon has put up a guarantee of 25 per cent. The money for the guarantees has come from a revolving fund set up in 1957 and annually enlarged by Congress until it now amounts to $383-million.

In addition to these "Country-X loans"—so-called because the bank does not ask, or want to know, what underdeveloped countries get the loans from the Pentagon—the Export-Import Bank has since late 1962 also made direct loans totaling $1,326-million to credit-worthy nations, mostly in Western Europe, for arms purchases.

For this fiscal year, beginning last July 1, the Pentagon had planned to make an additional $256-million in loans to underdeveloped nations. The bank, beginning in this fiscal year, had projected further direct loans of $775-million to developed countries.

Over the last month, the use of the bank for credits for arms sales—and particularly to underdeveloped countries — has Banking and Appropriations become a heated issue as the Committees of both houses, and the Foreign Relations Committee of the Senate suddenly became aware of the extent of the loans.

Many leading legislators raised the cry that the Administration had not informed them of this "diversion" of the Export-Import Bank from its original function of making loans to promote American commercial exports.

Under mounting pressure, the Senate Banknng Committee approved last week an amendment, proposed by the Administration, that would limit loans for arms sales to underdeveloped countries to 7½ per cent of the bank's total lending authority.

Since the bill increases the lending authority from $9-billion to $13.5-billion for the next five years, the total authorized for such arms sales would be $1.01-billion.

From this would have to be subtracted the $604-million in loans outstanding, leaving $408-million. But to this would be added $275-million coming in from repayments of past loans. Thus, over five years, the bank could underwrite Pentagon loans up to $683-million, or about $136-million a year. This is roughly half the rate over the last two fiscal years.

To the report on the bill, which was made public today, three Democratic members of the Banking Committee—William Proxmire of Wisconsin, Harrison A. Williams of New Jersey and William B. Spong of Virginia—enterd vigorous dissents.

Mr. Spong said the use of the bank for arms credits to less-developed countries "has had a deleterious effect on the bank's reputation." He said further that the use of the bank and the Pentagon revolving fund for guarantees "denies the Congress effective oversight and control."

Senators Proxmire and Williams said that Harold Linder, head of the bank, had conceded that the Banking Committee had not been kept informed.

They also said that if loans were to be made, the Administration should ask for a regular appropriations for the purpose, and not try to bypass the Foreign Relations Committee on policy and the Appropriations Committee on funds.